

the light report



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Superintendent's Summary

The beginning of September 2002 finds us working several regional and national issues. The Bonneville Power Administration's financial woes continue and the agency says its revenues for the next five years leave it with a more than one billion dollar gap.

The Federal Energy Regulatory Commission continues to pursue its vision of a market-based, nationalized electrical transmission system run from Washington, DC. We are fighting that effort with everything we can muster and we are making some real headway. The loss of local control of a state's most vital economic tool, its electrical system, is motivating state and local officials to take action.

At home, we're on track to have surplus revenues in excess of \$100 million. They will go to retire the debt from the energy crisis. We will pay back the \$185 million in revenue anticipation notes next spring and are still on pace to pay down our borrowing from the city's cash pool by the end of 2003.



The Periscope: FERC's power grab poses threat to Northwest

Our legacy of affordable, reliable electricity could evaporate if the Federal Energy Regulatory Commission approves a new free-market approach to delivering electricity.

FERC's "standard market design" proposal would scrap local and regional transmission regulations in favor of uniform national rules that induce utilities to buy power at volatile market rates.

These rates would not reflect the actual cost of producing power but what energy markets would bear, shifting advantages toward power marketers and producers -- and away from consumers.

RTO West, a potentially costly new federal bureaucracy created by FERC, would take control of the Northwest's high-voltage lines for transmitting power between generation sources and markets. That includes the entire BPA grid, which comprises 75 percent of our regional transmission system.

Transmission capacity would be sold to the highest bidders. That would encourage power marketers like Enron to keep transmission in tight supply to drive up prices. Utilities could be forced to choose between buying high-cost power or not using critical transmission lines -- a recipe for blackouts.

The estimated cost of creating and operating RTO West is between \$421 and \$525 million. Northwest ratepayers, already victimized by California's failed restructuring experi-

ment and manipulation of the Western energy market, would foot the bill.

Meanwhile, BPA says the unpredictable market could boost the agency's deficit to \$1 billion over the next four years. Paul Norman, a Bonneville senior vice president, said the agency is trying to save money by making itself more efficient, but that won't be enough to make up the deficit.

In response to these threats, City Light has joined Northwest Power Works. This growing coalition represents more than \$3.3 million consumers who oppose FERC's proposal to bring California-style electricity market restructuring and further rate increases to the Northwest.

Our work has led to intervention from the Northwest congressional delegation and numerous newspaper editorials blasting FERC for putting Northwest consumers at further risk. But time is running out for our local political leaders to be heard. The public comment period expires in mid-October, when the agency plans to announce final rules.

Northwest Power Works can help you tailor your message for Seattle citizens, federal authorities, and others. Call them at (206) 467-1327 or go online to <http://www.nwpowerworks.org>.

Bits and Pieces: News and Notes from City Light and the Utility Industry

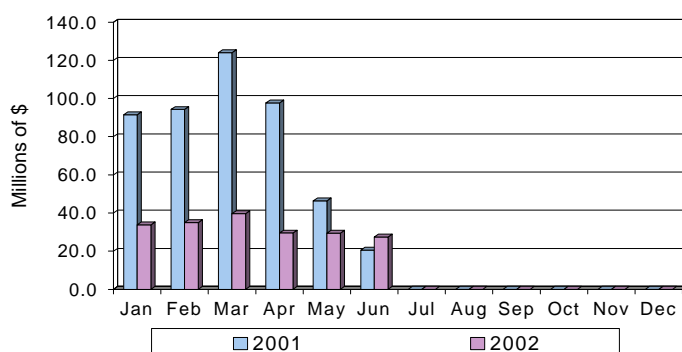
- Local 17 and City Light management agreed to install radio frequency meters at hundreds of hard-to-access residential sites starting this fall. This should greatly reduce es-

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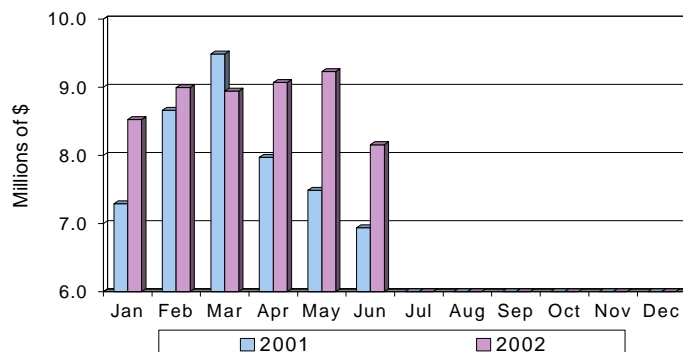
Actual Financial Performance Year-to-Date through June 2002

Summary Financial Statement (Amounts in Millions of Dollars)			2002 minus 2001	Reasons for Major Variances 6 Months 2002 vs. 6 Months 2001
Operating Revenues				
Retail Power Revenues	\$310.0	\$252.7	\$57.4	• Retail Power Revenues were \$57.4 million higher because of higher rates, despite 0.5% lower MWh billed. System average rates rose 9.3% and 10.3% in July and October 2001, respectively. Network rates increased another 0.5% in March 2002, followed by a system average rate decrease of 1.1% in April 2002.
Wholesale Power Revenues	\$69.1	\$69.9	(\$0.8)	• Wholesale Power Revenues fell \$0.8 million due to lower market prices, even though the volume of short term power sales was substantially higher than a year ago. The average sales price per MWh was \$22.14, in contrast to \$236.08 during the same period in the prior year.
Transmission and Other	\$5.1	\$9.9	(\$4.8)	• Transmission Revenues decreased \$6.4 million. The Department used more of its transmission capacity to deliver BPA Slice power to the service area, leaving less available for sale.
Total	\$384.2	\$332.4	\$51.8	• Other Revenues increased \$1.6 million because of an accounting change. Some billings recorded as revenues in 2002 had been recorded as offsets to expenses in prior years.
Operating Expenses				
Power & Transmission	\$195.0	\$474.3	(\$279.2)	• Power Expenses declined by \$279.7 million and Transmission Expenses rose \$0.4 million. See the Power and Transmission Expenses graph below for details.
Other O&M	\$52.9	\$47.8	\$5.1	• Nonpower O&M Expenses increased \$5.1 million, mainly due to higher customer service and administrative and general expenses. See graph below for details.
Taxes	\$33.4	\$25.4	\$8.0	• Taxes rose \$8.0 million, primarily due to the higher revenue base.
Depreciation & Amortization	\$35.0	\$27.8	\$7.2	• Depreciation rose \$7.2 million. \$5.2 million of the increase reflects depreciation of additional plant placed in service in 2001. Depreciation rose another \$2.0 million because contributions in aid of construction (CIAC) are no longer deferred and amortized, therefore depreciation expense is no longer reduced by the amortization of CIAC.
Total	\$316.4	\$575.3	(\$259.0)	• Investment Earnings were \$0.6 million higher. Interest and penalties on late customer payments rose \$0.9 million. In 2001, interest expense on the Department's borrowing from the City cash pool was recorded as an offset to interest income, whereas it was recorded as an interest expense in 2002, which increased interest income by \$1.0 million. Earnings on cash balances from the revenue anticipation note (RAN) declined \$1.0, as RAN cash was spent in 2001.
NET OPERATING INCOME	\$67.8	(\$242.9)	\$310.7	• Debt Expense was \$9.9 million higher because of \$6.7 million higher interest expense for the 2001 parity bond issue, \$2.9 million higher expense for the RAN and \$1.9 million for the interfund loan executed in December 2001. Interest expense on other parity issues fell \$2.2 million and variable rate bond expense decreased \$1.3 million due to declining interest rates. Interest during construction, which offsets interest expense because it is capitalized, fell by \$1.9 million, reflecting reduced expenditures on capital projects.
Other Deductions, Net				
Investment Income	\$6.7	\$6.2	\$0.6	• Net Income earned during the first half of 2002 totaled \$37.8 million, a marked turnaround from the \$269.9 million net loss incurred during the first half of 2001, thanks to greatly improved water conditions. This included \$50.0 million of power expenses deferred from the prior year, without which net income would have been \$87.8 million.
Contributions in Aid of Construction	\$6.3	\$0.0	\$6.3	
Grants and Transfers	\$0.0	\$0.0	\$0.0	
Other Income (Expense), Net	\$0.0	(\$0.1)	\$0.0	
Interest Expense	(\$43.0)	(\$33.1)	\$9.9	
NET INCOME (LOSS)	\$37.8	(\$269.9)	\$307.7	

Power & Transmission Expenses



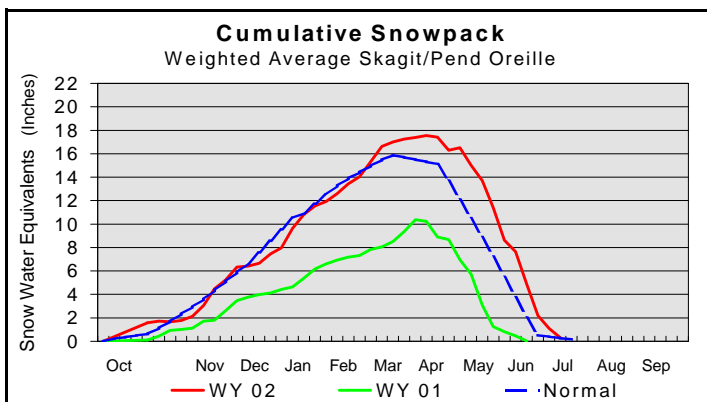
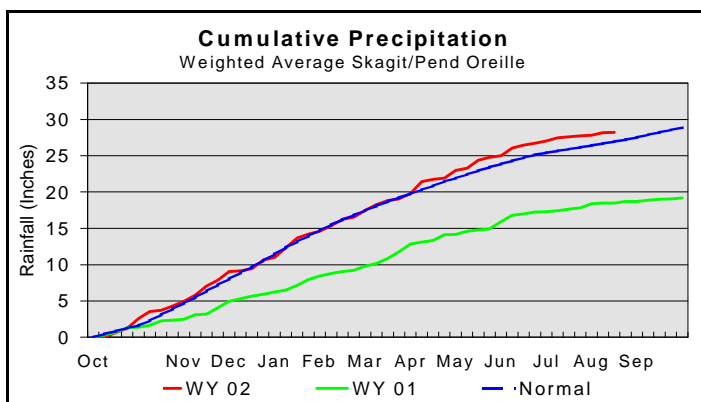
Non-Power O&M Expenses



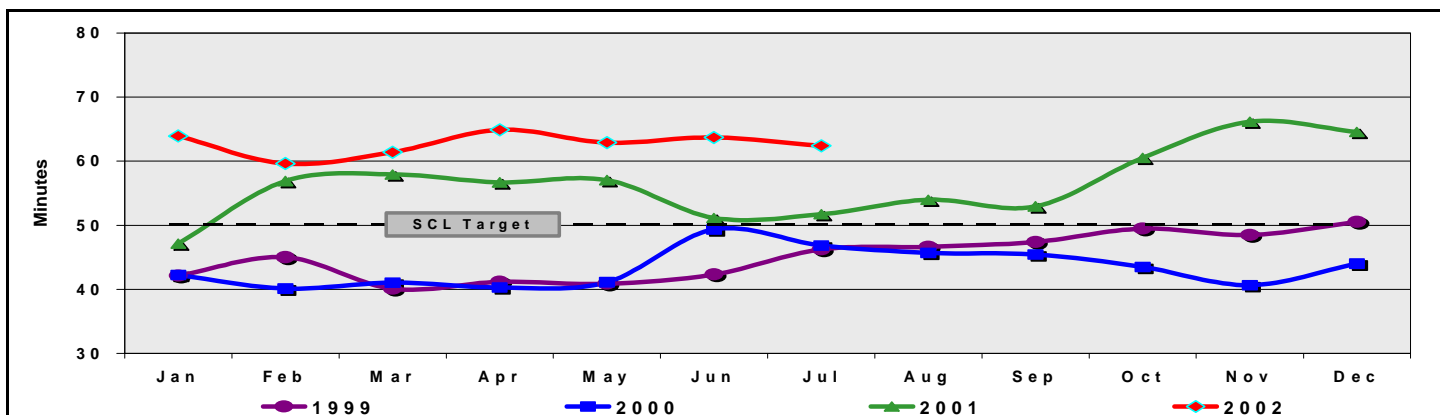
Power and Transmission expenses include costs of production, purchased power, power marketing, system control, owned transmission and wheeling. Power and transmission expenses were \$279.2 million lower than a year ago, mainly on account of a sharp \$332.5 million drop in short-term wholesale market purchases. The Department did not require as much short-term power in 2002 because of increased generation, due to improved water conditions, and increased energy purchases through new long-term contracts. Both the volume and average price of short-term purchases fell dramatically. The Department purchased 214,219 MWh at an average price of \$22.10 per MWh, down from 1,575,738 MWh purchased at an average price of \$245.30 per MWh during the first half of 2001. Long-term purchased power expenses rose \$48.8 million because of a \$48.5 million increase in purchases from BPA, primarily for Slice power, and \$18.2 million in expenses for purchases from Klamath Falls, including \$6.4 million for the associated gas price swap agreement. Generation expenses rose \$0.5 million, mainly for preventive maintenance at Ross and Boundary powerhouses, and total generation increased to 4,262,113 MWh from 2,333,876 MWh a year earlier. Transmission expenses rose \$0.4 million. BPA's reservation fee for transmission of additional Slice power was \$4.8 million and wheeling for Boundary power increased \$1.5 million. These increases were mostly offset by a \$4.4 million decrease in basis purchases and a \$1.0 million decrease in expenses for BPA transmission losses, which are currently being physically returned to BPA rather than being compensated for monetarily.

Non-Power O&M expenses include distribution, conservation, customer service, and administrative and general expenses. Non-power O&M expenses increased \$5.1 million due to higher customer accounting, administrative and general expenses. Customer accounting costs rose \$1.7 million because of increases in expenses for the Consolidated Customer Service System (CCSS), the Call Center, and uncollectable accounts. Administrative and general expenses increased \$2.5 million because of higher insurance claims related to toxic cleanup, higher employee pensions and benefits, and a reduced allocation of A&G expenses to CIP projects.

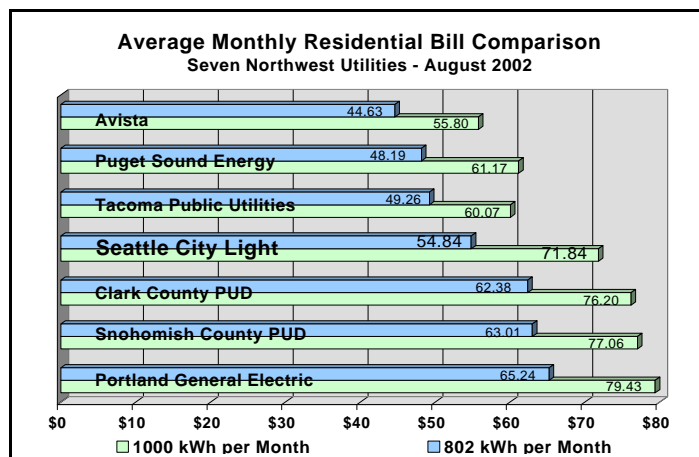
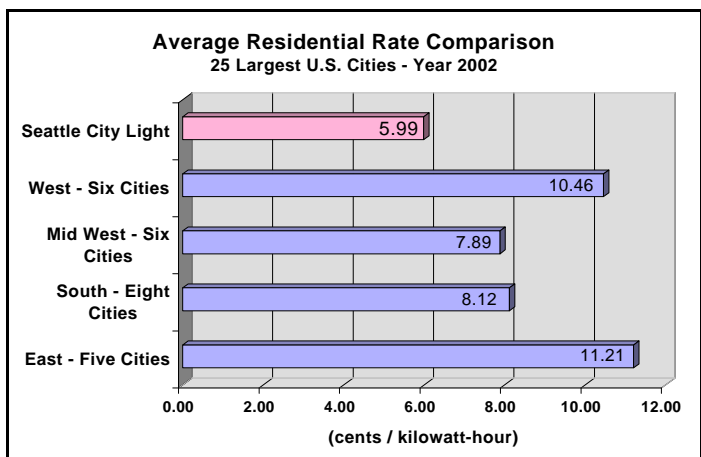
Standard Departmental Monitoring and Performance

Water Resources

The 2002 water year, due to conclude on September 30, is showing a return to more normal conditions from the record drought of 2001. This additional resource, combined with our new acquisitions, has allowed us to keep surplus sales revenues at last year's levels despite much lower market prices (see revenue table on facing page).

Customer Outage Minutes

Tree-related outages and equipment failures have driven up the System Average Interruption Duration Index (SAIDI) in 2001 and 2002. Tree-related outages correlate with budget-driven reductions in tree trimming operations. A significant portion of the tree trimming budget has been restored for the years 2003/04. The major cause of equipment outages is the aging infrastructure, particularly in undergrounded areas. City Light continues to replace older, less reliable system components.

Customer Rates

Eastern cities: Baltimore, Boston, Charlotte, New York, Philadelphia. Midwest cities: Chicago, Columbus, Denver, Detroit, Indianapolis, Milwaukee. Southern cities: Austin, Dallas, El Paso, Houston, Jacksonville, Memphis, Nashville, San Antonio. Western cities: Los Angeles, Phoenix, San Diego, San Francisco, San Jose, Seattle. In 2001 the average Seattle City Light in-city residential customer used 802 kWh per month.

timated meter reads, and resultant billing problems.

- The Bonneville Power Administration says the unpredictable Western energy market could boost the agency's deficit to \$1 billion over the next four years. On August 15, BPA Administrator Steve Wright presented five options to our City Council for solving the deficit. Heidi Wills pressed Wright to look at internal BPA cost cuts instead of only offering up reductions in fish, conservation and renewables.

- BPA is soliciting public comment on how it should get through the next three years without a financial catastrophe. The media quoted BPA Vice President Paul Norman, "We don't think we can cost-cut our way to a solution." The BPA is accepting written and e-mail comments as well (information is available at its Web site at <http://www.bpa.gov>) through Sept. 30. Steve Wright plans to announce his decision in December.

- The Northwest Power Planning Council is taking part in a regional discussion on what should be done about Pacific Northwest power sales after 2006, when BPA contracts with utilities and major industrial customers expire. The council plans to do its own analysis and make recommendations to the BPA. The BPA is accepting comment on these issues through Oct. 18 and expects to make a decision next year.

- The BPA's Transmission Business Line (TBL) conducted its first workshop on August 14 to discuss their 2004 Transmission Rate Case. Because BPA's actual costs were significantly lower and revenues higher than expected in 2002-03, the rate case is not expected to result in higher transmission rates, at least during the period 2004-05.

- In the wake of the events of last September 11, security at City Light's distribution and generation facilities has been increased. All employees who work at or visit any of these facilities must bring current City Light identification cards with them and present them upon request. Contractors visiting the sites must give advance notice of when they will come, and carry photo ID to show at any time.

- Favorable editorials were published in the *Times* and *PI* regarding our "go slow and think this through" position

against FERC's efforts to take over the Northwest transmission system and apply new market rules (see lead article). Jim Harding organized utility regulators to oppose FERC's attempts to overwhelm state regulatory authority through its "standard market design" proposal.

- FERC has issued an interim staff report on manipulation by Enron. The report calls for the commission to make some generic policy changes to market-based rate tariffs. The commission has set no deadline for a final report. The interim staff report and other documents are available on FERC's Web site <http://www.ferc.gov>.

- Chuck Clarke and Gary Zarker met with about 250 employees as a first step to improving customer relations. A consultant will be giving customer service training starting September. Additional meetings are planned.

- Interviews for the Power Management Deputy Superintendent will be held over the next few weeks. We hope to have this position filled by October 1.

- On September 3 City Light will reinstate its credit and collection activities, suspended since last April's billing system difficulties. Shutoffs will occur only after customers have been given ample warning and with the superintendent's express direction. Given all the steps involved, it will take about two billing cycles for shutoffs to occur.

- We participated in a kickoff meeting for the development of South Lake Union. The dynamics of land use development will affect the magnitude, timing, cost and cost sharing of power system capacity improvements needed to serve the area. Our Distribution Management Office advises that a new substation will be required to accommodate projected loads from commercial development. The first of several planning maps has been completed.

- Network links between the Key Tower and the System Control Center were down one day due to a bad port at the SCC. This disrupted access required our power marketers to relocate temporarily to the SCC to continue their work. We are working with Nortel and Cisco to determine ways to improve the automatic failover capability.

UPCOMING COUNCIL AGENDA ITEMS

Sep. 19 Energy and Environmental Policy Committee:

- Energy District
- Time-of-use Rates Discussion
- Replacement of Central Cash Pool Borrowing
- Refinancing of 1992 Bonds
- SRA Update
- Boundary Relicensing Discussion)

Sep. 26 Energy and Environmental Policy Committee:

- SRA Update

Oct. 5 Energy and Environmental Policy Committee:

- Communications Strategy
- Environmental Learning Center Status
- Conservation Plan Update
- Customer Service Plan Update

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